



# DENTAL & TAX CREDITS WITHIN THE ACA

**BACKGROUND:** The ACA requires tax credits, also known as premium assistance, to be available for lower income individuals purchasing health coverage on individual Exchanges. The assistance can be used to pay premiums for a consumer's health benefits --both medical and pediatric dental.

The ACA specifically provides for pediatric dental coverage to be offered separately from medical coverage in Exchanges to parallel today's insurance market. Under the ACA and IRS rules, premium assistance that a consumer receives is the lesser of:

- 1) the premium they will pay for the coverage purchased through an Exchange, or
- 2) the excess of the state's benchmark plan's (2<sup>nd</sup> lowest silver) premium over the maximum percentage of the consumer's household income to be paid in premium<sup>1</sup>.

The ACA included a special rule to include the premium for pediatric dental in the calculation of premium assistance. IRS rules on Health Insurance Premium Tax Credits apply this special rule only to option 1 of the calculation of premium assistance outlined above. In other words, if a consumer purchases a medical policy without dental and a separate dental policy AND the combined premiums are less than the calculated premium assistance based on the benchmark plan, then pediatric dental is specifically included in the tax credit.

Most tax credits are expected to be calculated based on the 2<sup>nd</sup> option above, i.e. the 2<sup>nd</sup> lowest cost silver plan. In most Exchanges, the 2<sup>nd</sup> lowest cost silver plan will be a medical policy without dental. IRS plans to use only the medical premium for premium assistance calculations under option 2 above. Therefore, in states where the 2<sup>nd</sup> lowest medical plan does not include pediatric dental, no consumer will receive premium assistance for their pediatric dental benefits. In other states where the 2<sup>nd</sup> lowest silver plan includes pediatric dental, all consumers will receive premium assistance for dental, whether they purchase health benefits with pediatric dental or not.

Because the Federally-facilitated Marketplace and many state-based Exchanges have determined that stand-alone pediatric dental is a required *offer* not a required *purchase*, without premium assistance consumers may not purchase critical pediatric dental coverage for their children as Congress intended.

**RECOMMENDATION:** IRS should calculate tax credits based on all 10 essential benefits—whether contained in 2 policies or one for consumers in all states to be treated equally with regard to premium assistance. Further the IRS should segregate a portion of the tax credit to be utilized only when pediatric dental is purchased, as intended by Congress. In each state, the IRS should note:

1. The total subsidy is available for a medical policy covering all 10 essential benefits;
2. A portion<sup>2</sup> of the subsidy is reserved for the purchase of pediatric dental under a stand-alone dental plan in addition to a medical policy without a pediatric dental benefit.

**VALUE:** By improving the affordability of pediatric dental benefits, more families are likely to enroll and seek critical preventive pediatric dental care.

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<sup>1</sup> 26 CFR 1.36B-3(f)(3); pg. 30391

<sup>2</sup> Dental benefits average about 1/12<sup>th</sup> of the annual premium of a medical policy. So if a medical policy costs \$12,000 annually, the corresponding dental policy for a family would be about \$1000. Since only the child portion of a family dental policy is being supported by tax credits, an allocation of 5%-6% of the tax credit for the purchase of pediatric dental coverage would be reasonable.